

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CEA-01 CIAE-00 COME-00 EB-07

EA-07 FRB-03 INR-07 IO-13 NEA-10 NSAE-00 OPIC-03

SP-02 TRSE-00 LAB-04 EPG-02 SIL-01 AGRE-00 OMB-01

XMB-02 FS-01 ABF-01 PER-01 DODE-00 NSCE-00 SSO-00

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-----017653 121012Z /23

O P 100856Z JUL 77

FM AMEMBASSY MADRID

TO SECSTATE WASHDC IMMEDIATE 965

US INFO WASHDC IMMEDIATE

INFO AMEMBASSY PARIS IMMEDIATE

AMEMBASSY LISBON PRIORITY

RFC PARIS IMMEDIATE 539

C O N F I D E N T I A L MADRID 5234

OECD

E.O. 11652: GDS

TAGS: EFIN, SP

SUBJECT: DEVALUATION OF THE PESETA

1. SUMMARY: THE SPANISH GOVERNMENT DEVALUED THE PESETA 24.6 PERCENT, EFFECTIVE TODAY. THIS FOLLOWED THE CLOSING OF THE MADRID FOREIGN EXCHANGE "MARKET" ON JULY 11. THE LAST DEVALUATION OF THE PESETA WAS ON FEBRUARY 9 OF LAST YEAR, WHEN IT FELL 11 PERCENT AGAINST THE DOLLAR. FROM THAT TIME UNTIL THIS NEW DEVALUATION THE PESETA/DOLLAR PARITY HAD GRADUALLY SLIPPED ANOTHER 5.2 PERCENT. THESE DROPS IN THE OFFICIAL PESETA PARITY HAVE BEEN DUE TO SPAIN'S PRESSING PROBLEMS OF BALANCE OF PAYMENTS DEFICITS AND HIGH DOMESTIC INFLATION. THESE PROBLEMS MADE IT TOO EXPENSIVE FOR THE BANK OF SPAIN TO DEFEND THE OFFICIAL EXCHANGE RATES, IN SPITE OF AN EXTENSIVE ARRAY OF EXCHANGE CONTROLS, AND MADE NECESSARY TODAY'S DEVALUA-
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TION. END SUMMARY.

2. IN LAST FRIDAY'S SESSION OF THE BANK OF SPAIN'S EXCHANGE MARKET, THE DOLLAR COULD BE BOUGHT FOR 70.09 PESETAS AND SOLD FOR 69.89. TODAY'S NEW INTERVENTION RATES ARE 87.50 AND 87.30. RE-
PRESENTS AN EFFECTIVE DEVALUATION OF 24.6 PERCENT.

SPANISH AND FOREIGN NEWSPAPERS IN THE LAST THREE MONTHS HAVE PREDICTED A PESETA DEVALUATION AS HIGH AS 40 PERCENT. FUENTES QUINTANA, THE NEW ECONOMICS VICE PRESIDENT, RECENTLY INDICATED THAT THE PESETA WAS OVERVALUED BY ABOUT 20 PERCENT.

3. BEFORE THE PESETA WAS DEVALUED ON FEBRUARY OF LAST YEAR, ONE DOLLAR SOLD FOR 60.00 PESETAS. SINCE A DOLLAR NOW COSTS 87.30 PESETAS, THE PESETA HAS BEEN DEPRECIATED IN THIS PERIOD AGAINST THE DOLLAR BY 45.5 PERCENT. THIQ PESETA DEPRECIATION HAS BEEN DUE TO HUGE BALANCE OF PAYMENTS DEFICITS DURING EACH OF THE LAST THREE YEARS. WITH THE RESULTING LOSS OF RESERVES AND RISING INDEBTEDNESS, THE PAYMENTS DEFICITS HAVE BECOME EVEN MORE TROUGLING. CORRECTING THE PAYMENTS DEFICITS WAS MADE MORE DIFFICULT BY THE HIGH AND RISING INFLATION: OFFICIAL FIGURES SO FAR THIS YEAR SHOW BOTH CONSUMER AND WHOLESALE PRICES RISING AT A 27 PERCENT ANNUAL RATE.

4. EXCHANGE CONTROLS AND MEASURES TO PROMOTE EXPORTS AND DISCOURAGE IMPORTS HAVE SO FAR BROUGHT INSUFFICIENT RELIEF FOR SPAIN'S BALANCE OF PAYMENTS PROBLEMS. THE STEADY LOSS OF FOREIGN EXCHANGE HAD ACCELERATED SINCE THE ELECTIONS. SPANISH AND AMERICAN BANK
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SOURCES HAVE TOLD US THAT BY THE END OF LAST WEEK THE BANK OF SPAIN WAS PAYING 50 TO 70 MILLION DOLLARS A DAY TO HOLD THE VALUE OF THE PESETA.

5. THE BANK OF SPAIN HAS INFORMED US THAT TODAY'S RATES WILL NOT BE RIGIDLY MAINTAINED. THE PESETA PARITY MAY CHANGE SOMEWHAT AS THE MARKETS REACT TO THE NEW RATE. STABLER

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Message Attributes

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